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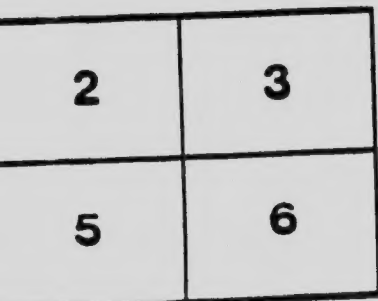
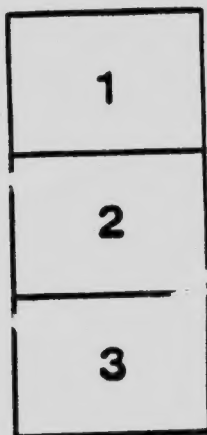
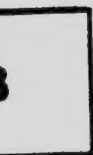
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propositions.

That of the Canadian Pacific Company provided as follows :—

1st. That the Company would take over and operate the lines of the Northern Pacific and would pay the Government by way of rental—for the

1st ten years.....	\$220,000 per annum
2nd “	“ 245,000 “
Thereafter	“ 300,000 “

or a profit over and above the rental paid by the Government of more than half a million dollars.

It may be said that the fact that the Canadian Pacific Company was willing to pay a profit on the rental is a justification to the Government for the payment of the rental it has agreed to pay.

It must be borne in mind, however, that the Canadian Pacific Railway Company is only able to make such an offer because it can operate these lines in connection with its present system for a vastly less sum than they can be operated for by the Government, or by any independent corporation, and because whatever additional traffic they will contribute to the Company's lines East of Fort William makes them more valuable to that Company than to any Company whose interests extend to Lake Superior only.

Railway Policy of Manitoba.

MEMORANDUM.

The railway policy of the Manitoba Government, as it has been foreshadowed in the public press, is of such magnitude, and is fraught with such serious consequences to the Province, that every resident of the Province should himself understand the conditions under which it is proposed to carry out this policy.

It was the declared intention of the late Government—an intention which has been emphasized by its successors, the present Conservative Government—to ultimately secure for the people of the Province a rate of 10 cents per 100 lbs. on Wheat from Manitoba to Lake Superior, and various projects have been discussed with the object of bringing that about.

It is now known that the Government, in order to be in a position to influence the question of rates, has leased, with the option of purchase, the lines of the Northern Pacific in Manitoba, comprising about 350 miles, and it is understood that the rental to be paid by the Government is :

For the first ten years	\$210,000	per annum.
“ second ten years	225,000	“
“ third “	275,000	“
Thereafter	300,000	“

and that the option of purchase is at \$7,000,000.

It may be here remarked that it is difficult to understand how, in the face of the strong position taken by the leaders of both political parties against the over capitalization of railways, the Government can justify an arrangement under which it will pay as rental interest at the rate of 4 per cent. on over \$20,000 per mile, or about double the cost for which a new road could be built; yet capitalizing the average rental at four per cent, this is what the Government proposes to do.

These lines the Government proposed to hand over for operation to whichever of the existing companies would make the best arrangement, the main object being the securing of reductions in rates, and it asked for propositions.

Without entering into the details of the preliminary negotiations, it will suffice to say that amongst others, the two Companies which were really in a position to meet the requirements of the Province, the Canadian Pacific and the Canadian Northern, each submitted propositions.

That of the Canadian Pacific Company provided as follows:—

- 1st. That the Company would take over and operate the lines of the Northern Pacific and would pay the Government by way of rental—for the

1st ten years	\$220,000	per annum
2nd “ “	245,000	“
Thereafter	300,000	“

or a profit over and above the rental paid by the Government of more than half a million dollars.

It may be said that the fact that the Canadian Pacific Company was willing to pay a profit on the rental is a justification to the Government for the payment of the rental it has agreed to pay.

It must be borne in mind, however, that the Canadian Pacific Railway Company is only able to make such an offer because it can operate these lines in connection with its present system for a vastly less sum than they can be operated for by the Government, or by any independent corporation, and because whatever additional traffic they will contribute to the Company's lines East of Fort William makes them more valuable to that Company than to any Company whose interests extend to Lake Superior only.

- 2nd. That the Company would make the following specific reductions in rates :
On Grain and Flour between points in the Province and Lake Superior taking effect :

Sept. 1st, 1901.....	1½ cts. per 100 lbs.
" " 1902.....	1 " "
" " 1903.....	1 " "
" " 1904.....	1 " "
" " 1905.....	1 " "
" " 1906.....	1 " "

thus making a reduction during that period of 4 cents per 100 lbs. and establishing a ten cent basis. These reductions would have meant a loss to the Company and a saving to the people of the Province and Territories (the Territories must be taken into account, as any reduction made in Manitoba will undoubtedly affect the North-West Territories), of nearly Four Millions of Dollars, within the next six years.

The rate on Salt to be reduced forthwith to 15 cents per 100 lbs. from Fort William to Winnipeg.

The rate on Coal from Fort William to be reduced forthwith as follows :—

To Winnipeg to.....	\$2.50 per ton.
To Portage la Prairie.....	3.00 "
To Brandon	3.35 "

- 3rd. That the Company would give to the Government control of all local rates between points within the Province and between points in Manitoba and Lake Superior, subject only to an appeal to the Courts of the Province in the event of dispute.

- 4th. That the Company would, without Government assistance, build during the current year :

A branch line from some point near Brandon, north-westerly through the municipalities of Daly and Woodworth, a distance of about 34 miles.

A branch line from Carman, easterly, for a distance of about 16 miles.

An extension of the Snowflake Branch.

Whilst all that the Canadian Pacific Company asked in return was :—

- 1st. That the Government would not, for a period of ten years, subsidize any new railways in that part of the Province south of a line drawn east and west through Binscarth, unless the Company itself had previously refused to build such lines, nor any railway line between any point in the Province and Lake Superior. (This condition has since been withdrawn leaving the Government with a perfectly free hand in this matter).
- 2nd. That the Government would put the Company in the same position with regard to taxation as the Canadian Northern now occupies, the Canadian Pacific being at present the only Railway which is taxed by the Province of Manitoba. (This condition has since been modified, the Company agreeing to a taxation of one per cent. of its earnings instead of two as at present leaving the Company still the only Railway taxed in Manitoba.)

THIS PROPOSITION WAS REFUSED, and in place of it the Government now proposes to make a contract with the Canadian Northern Company embodying the following conditions :—

- 1st. That the Canadian Northern Company will take over the lease of the Northern Pacific lines, promising to pay to the Government the same rental only as the Government itself is liable for, BUT THAT ONLY IF THE NET EARNINGS OF THE COMPANY ARE SUFFICIENT TO MAKE THE PAYMENT. IF THEY ARE NOT, THE GOVERNMENT ITSELF MUST PAY THE RENTAL TO THE NORTHERN PACIFIC COMPANY OUT OF ITS OWN TREASURY.
- 2nd. That the Company will pay interest on the bonds to be guaranteed by the Government for \$5,800,000, hereinafter referred to as net earnings, PROVIDED ALSO, AS IN THE CASE OF THE RENTAL, THAT THE EARNINGS ARE SUFFICIENT TO ENABLE IT TO DO SO. BUT IF THE EARNINGS ARE NOT SUFFICIENT, THEN THE GOVERNMENT ITSELF MUST PAY THIS INTEREST.

- 3rd. That the Company will allow the Lieutenant-Governor of Manitoba in Council to fix the freight rates in Manitoba, and between points in Manitoba and Lake Superior; in case of dispute the matter to be determined by the Chief Justice of the Province, whose decision shall be final.
- 4th. That the Company will reduce the passenger rate in Manitoba to 3 cents per mile, (The present Canadian Pacific rate).
- 5th. That the Company will complete its line between Winnipeg and Port Arthur by the 1st October next, and will also build or secure a connection from a point on its line at or near Selkirk to Duluth.

In return for the foregoing **THE GOVERNMENT UNDERTAKES:**

- 1st. To guarantee the loans of the Ontario and Rainy River Railway, principal and interest (4%), for a distance of 21 miles, making

A Capital liability of.....	\$1,800,000
With an annual interest charge of.....	\$ 232,000

- 2nd. That in the event of the earnings of the Railway being insufficient to pay its operating expenses, and to meet the interest on the bonds, the **GOVERNMENT ITSELF, WITHOUT ANY RECOURSE AGAINST THE COMPANY, WILL MAKE GOOD SUCH DEFICIT.**

- 3rd. To allow the Company to issue additional bonds (unguaranteed) to the extent of \$2000 per mile over the portions of the Canadian Northern line upon which the Government has already guaranteed an issue of \$8000 per mile.

These are all of the important features of the propositions of the two Companies.

LET US COMPARE THE RESPECTIVE OFFERS:

Taking first that of **THE CANADIAN PACIFIC COMPANY**—

It meant that the Company would have:

Built such branch lines as might be considered necessary by the Government;

Made reductions in rates commencing on the 1st September next, that would have saved Four Millions of Dollars to the people of the North-West;

Given complete control of its other rates in Manitoba and between Manitoba and Lake Superior to the Government and Courts of the Province.

Whilst it asked:

For no bonds, for no guarantee nor for the assumption of any liability whatever by the Government, as even in the case of the rental of the leased lines the Government would have the covenant of the strongest corporation in Canada, not only against any loss, but providing for a handsome profit.

The only concession the Company asks for all the advantages it offers, is a moderate reduction in taxation, still leaving it the only Railway Company taxed by the Province.

The CANADIAN NORTHERN COMPANY'S proposition on the other hand:

Provides for the construction of no branch lines;

Gives no specific reduction in rates;

Provides for a control of rates similar to that offered by the Canadian Pacific Company;

Provides for a reduction in passenger rates, which means nothing, as the rates on the other lines in the Province are already down to 3 cents per mile, and the rates on the Canadian Northern would undoubtedly have been forced down by public pressure to the same basis before long;

Provides for a promise by the Company that it will complete its line to Port Arthur by 1st October, presumably to carry out a share of next season's crop, whilst it is known that the Company's lines cannot be completed by the date named, and that it will be utterly impossible for it to provide by that time proper facilities for handling any portion of next season's crop;

It provides also for the construction or acquisition at some future time, no date being specified and no penalty provided for failure, of a connection with Duluth.

Whilst in payment for these remarkable "concessions" :—

The Government undertakes to assume a liability for rental of an average amount per annum of \$298,000.

Which capitalized at 4 per cent. means \$7,452,450, but for the purpose of capital liability may be taken under the option at.....\$ 7,000,000

And by way of guarantee on bonds a liability of..... 5,800,000

Or a total liability under this contract of.....\$12,800,000

And in addition to this the Government has previously assumed liabilities in the form of a guarantee of bonds on the Company's line already constructed, say 475 miles at \$8,000 per mile 3,800,000

Making a total for this one railway of.....\$16,600,000

There would be therefore an average annual rental and interest charge of ... 682,0 0

Assuming that there are 1115 miles of road upon which to earn this net revenue, the lines being as follows :—

Line north of Gladstone	325 miles
" east of Winnipeg	150 "
" west of Port Arthur	290 "
Northern Pacific lines leased	350 "
	<hr/>
	1115 "

It would mean a fixed charge for interest and rental of \$610.00 per mile per annum.

Assuming that the road could be operated for 65 per cent. of its gross earnings, an exceedingly low proportion and possible only in the case of a line with a heavy traffic, (it is true the Canadian Northern Company shows a less proportion, but it would be interesting to learn what share of its earnings were derived from the freight charges on its own construction material, and what rates the Company allowed itself on this business), it would require gross earnings of nearly \$1,750.00 per mile per annum to enable such a charge to be paid.

As this is a much larger sum per mile than the average earnings of the Canadian Pacific Company's lines in Manitoba, a child can calculate the result to the Province of the acceptance of the Canadian Northern Company's proposition.

But to pursue this subject a little further, the Canadian Northern Company undertakes to pay the rentals and interest on guaranteed bonds out of earnings *if it can*, but if it cannot the Government steps in and pays these charges itself.

What are the chances of the Canadian Northern Company being able to pay these charges?

It is not unreasonable to cite the experience of the Northern Pacific and Manitoba Company, the leased lines, the lines which are being leased to the Government of Manitoba **BECAUSE THEY ARE UNPROFITABLE TO THE COMPANY**, and unprofitable notwithstanding the fact that this Company had the same or better facilities (with equal, if not better rates) for getting the traffic from its Manitoba lines to the Lake, as the Canadian Northern Company will have when its line is completed.

The Northern Pacific and Manitoba Railway, although established in Manitoba for many years, and running through a well settled country, **HAS NEVER YET PAID EVEN ITS OPERATING EXPENSES.**

ITS LOSS in the actual operation of the line apart from the interest charges, for the year ended 30th June, 1900, according to the sworn statement filed by the Company with the Dominion Government was \$185,578.21.

This being the case what prospect is there for the Canadian Northern line between Winnipeg and Port Arthur paying its operating expenses, let alone interest on its cost, for at least many years to come? Is it reasonable to suppose that a line built for over 400 miles through an unsettled and practically unproductive country can do as well or nearly as well as a line built through such a well settled district as southern Manitoba. But allowing that it does as well as the Northern Pacific Company has done, and that the Canadian Northern lines west of Winnipeg will take care of themselves it means what?

It means that in addition to the interest on guaranteed bonds and the rental to be paid for the leased lines which the Government will have to pay, and which of themselves amount to.....\$ 632,000 per annum.

There will be the deficit in the operation of the leased lines and of the line between Winnipeg and Port Arthur which, even under the favorable conditions stated above, will amount to no less than..... 463,730
making a total deficit of.....\$1,145,730 per annum,
an amount considerably larger than the total revenue of the Province at the present time.

It must be remembered that the figures given are based upon the rates now existing. What then will be the result if the rates are reduced to the figures offered by the Canadian Pacific Company ?

The conditions of the Government guarantee are such also, that whilst it makes good all losses, it participates in no profit, in other words :

It takes the responsibility of pledging its credit for over \$16,000,000 in aid of a line whose profits will go to its private owners, but whose losses will be borne by the Government.

It is necessary for a moment to draw attention again to the provision of the contract under which the Government undertakes to make good any deficit should the difference between earnings and operating expenses be insufficient to pay interest.

The definition of operating expenses can be found in the Railway Act, and any one at all familiar with railway operation will understand what an opportunity such a provision as this offers for the expenditure of the Company's entire revenue in the improvement of its line, regardless altogether of any obligation to pay interest.

And what is the Government getting for the enormous liability it is assuming ? **IT IS GETTING NOTHING MORE ; IT IS GETTING LESS** than it could have got **WITHOUT ASSUMING LIABILITY FOR A SINGLE DOLLAR.**

WINNIPEG, January, 22nd, 1901.

HON. R. P. ROBLIN, M.P.P.,

Premier of Manitoba,

Winnipeg, Man.

SIR,

Referring to the discussion at our interview this afternoon, I desire to repeat what was stated in general terms to you and the other Members of your Government.

The Canadian Pacific, as described in the contract between the Government and the Syndicate, received substantial aid in the way of constructed lines, lands, and cash, but the road, as then contemplated, would not at this date be earning money enough to give any return on the private capital invested in the enterprise, much less to have enabled the proprietors to raise the large additional amount of money that has been expended on the line since its nominal completion, to improve its character, so that it might be operated more economically and effectively.

That the Company has been financially successful is due to the broad policy of building and acquiring feeders, adopted almost in the beginning and pursued ever since. To-day there are upwards of two hundred and twenty-five millions of dollars of private capital invested in the enterprise.

Common honesty demands that the people who invested that vast sum of money in our country should receive fair treatment at the country's hands. The Government could, of course, by utilizing the resources of the Dominion or any of the Provinces for the construction of competing lines, seriously injure, or, indeed, totally destroy, the property of these investors.

The Government cannot operate a railway any more economically than a private company; indeed, experience teaches that Government operation is the more expensive, but with the public chest from which to make up deficits, the rates for the carriage of traffic over a Government Railway System could be established on a basis that would be impossible in the case of a private corporation. It would take the public some time to find out that the apparent reduction in rates was more than counter-balanced by the increase in taxation.

Speculators can be found who, with a sufficient Government bonus, will undertake to build lines, and will accept almost any condition as to rates, their interest being only in the profit to be realized from the construction of the lines, without any regard to their successful operation in the future.

Even where there is a specific contract by which the Government waives the control of rates until certain things have come to pass, as in the case of the Canadian Pacific, the Government is justified in resorting to all reasonable measures to secure fair rates of transportation for the people of the country, but in determining what are fair and reasonable rates some recognized course should be adopted. It would be manifestly wrong to arbitrarily name the rates that are to be put in effect, without reference to their efficiency or fairness. The Canadian Pacific has not attempted, and it has no desire, to use its contract with the Federal Government for the purpose of securing rates for the carriage of freight that are unreasonably high. It has been the policy of the Company to reduce rates from time to time, in one locality or other, when it could be done without unduly sacrificing the interests of its security holders.

The Company has a line of railway from Lake Superior to the Pacific Coast, with branch lines in the Provinces and Territories. South of the International boundary there are two railways similarly situated. The circumstances under which the lines are operated are identical in many particulars, but the advantage is with the lines south of the International boundary. Their rolling stock, fuel, and supplies cost them less money than ours cost us. There is little, if any, difference between us in the matter of wages. Each of the railways south of the boundary has a population to serve several times as large as the population along the Canadian railway; consequently these railways have more local business. Their tolls and fares are controlled by the Federal Government, with reference to certain classes of traffic, and by each of the States through which their lines pass with reference to the traffic within the State. It may be assumed that under all these circumstances their tolls are as low as can be reasonably expected. In any event, we do not hear that either the Federal or State Government will provide money for the acquisition or construction of lines to compete with them. Is there any reason why the rates in Canadian Pacific territory between Port William and the Pacific Coast should

be lower than those which prevail in the territory between Duluth and the Pacific Coast in the United States? On the contrary, taking everything into consideration, should not the Canadian Pacific be entitled to somewhat higher rates, in view of the conditions prevailing north of the International boundary? I make the statement most positively that our rates are as low as those of any of the railways in corresponding territory in the United States. I think that the Minister of Railways, Hon. Mr. Blair, who caused an exhaustive comparison to be made upwards of a year ago, will bear me out in this statement. If these be the facts, and they can be easily verified, is there any reasonable ground for complaint against the Canadian Pacific, and is there any justification for legislative action, that is calculated to force down to an unreasonable and indefensible basis the compensation that the Company shall receive for its services, thereby using the strong arm of the Government to attack investors, and to injure, if not destroy, their property?

The popular demand for what is known as a ten cent rate on wheat in Manitoba has at the present time no more justification in fact than would a demand that gold dollars should pass current at seventy cents in that Province. No such rate prevails elsewhere under like conditions. It is thirty to forty per cent. lower than the rates from corresponding points in the United States to Duluth.

It is the policy of the Canadian Pacific Railway Company to reduce the rates just as rapidly as circumstances will permit. The increase of tonnage will be a most important factor in bringing this about, because on the western sections of the system several times as many freight trains could be run without any increase in the fixed expenses, the additional cost being practically represented by the wages of the trainmen, fuel, and repairs. Everything that has been done, and may be done, to divert tonnage to other routes is an obstacle in the way of the reduction, which I beg to assure you in all sincerity the shipper is no more anxious to secure than the Company is to make, just as rapidly as the conditions warrant.

Notwithstanding the Company's desire and determination to pursue this policy, it seems impossible to satisfy the public and a large section of the press of its sincerity, and, therefore, the Company has decided to do what it can in ordinary prudence toward allaying agitation by submitting for the acceptance of your Government the following proposition for the control of rates:

The Company will agree to build a line from a point near Brandon on the Great North-West Central Railway, northwesterly, through the Municipalities of Daly and Woodworth, for a distance of about 34 miles, during the current year; also a line from Carman eastward, 16 miles, towards Osborne.

The Company will lease for 999 years from the Government the Northern Pacific lines in Manitoba, including equipment and terminals, paying therefor an annual rental of Two hundred and twenty thousand dollars for the first ten years, Two hundred and forty-five thousand dollars for the second ten years, and Three hundred thousand dollars thereafter.

In consideration of the Province placing the Company in the same position that the Canadian Northern now occupies with reference to taxation, and an undertaking on the part of the Provincial Government that for a period of ten years the Government will not grant aid toward the construction of any railways within the Province, south of a line drawn easterly between the western boundary of the Province as it now exists, or may hereafter exist, through Binsearth, to the eastern boundary of the Province, nor any railway line between any point in the Province and a port on Lake Superior, the Company will make the following specific reductions in its rates:

Sept. 1st, 1901,	Grain and Flour,	1½	cents per hundred lbs.
" 1902,	" "	1½	cent "
" 1903,	" "	1½	" "
" 1904,	" "	1½	" "
" 1905,	" "	1½	" "
" 1906,	" "	1½	" "

thus making a reduction within that period of four cents per hundred pounds from all points within the Province.

The rate on salt will be reduced forthwith to fifteen cents per hundred pounds from Fort William to Winnipeg, and to all other points in proportion, according to existing tariffs.

The rate on coal, Fort William to Winnipeg, will be reduced to \$2.50; to Portage la Prairie, \$3.00; and to Brandon, \$3.35 per ton of 2000 pounds.

In order to define the control of and to deal with disputes that may arise with reference to rates, the Company will undertake to pay to the Government an amount not exceeding Five Thousand Dollars per annum, as the salary of a competent man to be appointed by the Government for the purpose of receiving, investigating, and reporting upon every complaint about the transportation charges of the Company. If at any time such official shall be of the opinion that any of the Company's local rates between points within the Province of Manitoba, or between any point in Manitoba and Lake Superior, in either direction, is not fair and reasonable, the Railway Commissioner for Manitoba may notify the Company to that effect, and of the change which, in his opinion, is necessary to make it so.

If the Company be not satisfied with the proposed change, it shall, within one month from the receipt of the notice, satisfy the Commissioner that the rate proposed by him is not a fair and reasonable one; failing this, the question shall be referred to the adjudication of the Court of King's Bench of Manitoba, to determine what under the circumstances is a fair and reasonable rate in respect of the matter in connection with which the proposed change is required. Such Court may, for the purpose of determining the matter, make full inquiry and receive such evidence as may be adduced by either party. It shall be the privilege of either of the parties to appeal from the judgment of such Court to the Court *in banc*, whose decision in the matter shall be final.

It would be necessary, of course, in any formal agreement to amplify the details of the procedure and to provide means of compelling the Company to put in effect the rates finally decided upon.

If it be deemed desirable that the portion of the line between Winnipeg and Portage la Prairie should be reserved for the purpose of giving the Canadian Northern Railway a connection with the Winnipeg and & South Eastern Railway and the Ontario & Rainy River Railway, that line may be reserved by the Government, the rental to be paid by the Canadian Pacific Railway Company to be reduced *pro rata* according to the mileage.

It is understood, of course, that the proposition is submitted as a whole and subject to acceptance within a reasonable time. If there be anything in the proposition requiring further explanation or amplification please advise me.

I have the honour to be, Sir,

Your obedient servant,

(Signed) T. G. SHAUGHNESSY,

President.

MONTREAL, 8th February, 1901.

HON. R. P. ROBLIN,
Premier of Manitoba,
Winnipeg, Manitoba.

SIR,

The Executive Agent of the Company has reported to me your advice to him that at a caucus of the Members of your party recently held, it was decided by a majority of the Members, against the wish of your Government, not to accept the proposition of the Canadian Pacific Railway Company addressed to you and dated 22nd January last.

In view of your assurance to me when in Winnipeg that your Government would not reject the Canadian Pacific Railway Company's proposition, without my having a further opportunity of communicating with you, to enable me to amend the proposition to, so far as possible, come into accord with the wishes of your followers, I have decided on behalf of the Canadian Pacific Railway Company, to submit the following modifications of the original proposition, and also the alternative offer herein contained.

I am constrained to endeavor to meet the views of your followers, not only by my desire to make an arrangement with your Government which will be in the best interests of the Province, and will secure for the company the hearty support and co-operation of all residents of Manitoba, but also by your frank statement to me that the proposition was a much better one than you had expected to obtain, and by the further statements made by yourself to Mr. Baker, and by the Hon. Mr. Baker to Mr. Phipps, that the proposition was, subject to the modifications which are now proposed, entirely satisfactory to your Government, and was, in the opinion of all the Members of your Government, the best offer in the interests of the Province that you had received, and that it was against the unanimous wishes of your Government, and against what you considered to be the best interests of the Province, that caucus had decided not to accept it.

For these reasons, and the reasons hereinafter discussed, I beg, on behalf of the Canadian Pacific Railway Company, to offer the following modifications to the proposition of the 22nd January, which, except as herein altered, will stand as originally made:

1st. The Company will withdraw that portion of its original proposition restricting your Government from assisting other roads in certain sections of the Province for a period of ten years, thus leaving the Government of the Province free to act as it may deem best in such matters.

2nd. The Company will modify its request to be placed in the same position as to taxation as the Canadian Northern Company, by agreeing to pay such taxes as may be imposed up to one per cent. (instead of two per cent. as at present) of the Company's earnings in Manitoba.

The result of these modifications is to offer your Government, without return, the great advantages contained in the Company's offer of the 22nd January, the only benefit the Company is to receive being a slight reduction in the amount of taxes to be imposed, but still leaving the Canadian Pacific Railway Company the only Railway taxed by your Province.

I have personally given you the reasons why, in my opinion, it will be most disastrous to the Province should the contract, the terms of which you have disclosed to me, be entered into with the Canadian Northern or any other Railway Company. I have pointed out to you, that in making the proposed contract, the Province assumes a fresh liability of \$12,800,000, and an annual payment of \$682,000; that according to the sworn returns to the Dominion Government, the lines of the Northern Pacific Railway Company in Manitoba were last year operated at a loss of \$185,573.21 apart entirely from interest on bonds, notwithstanding the fact that these lines are constructed through some of the most fertile parts of your Province; that taking this as a basis, and allowing every margin in favour of the Canadian Northern Company, that Company cannot hope to more than pay its operating expenses for many years to come, and that in the meantime the Province of Manitoba must pay out annually for rental and interest the sum of \$682,000, a sum approaching the present total gross revenue of the Province without any claim against, or hope of recovery from the Company.

I have shown you that the statement that the Canadian Northern Railway Company has been able to pay its operating expenses and interest on its bonds from the commencement may be due to abnormally high freight rates charged by that Company to its contractors (its owners) for hauling construction material, and that this view is clearly

substantiated, not only by the history of other Companies similarly situated, but by the unprecedentedly low percentage of its operating expenses as shown by its Government returns.

I have urged upon you the fact that any substantial reduction of rates such as the Canadian Pacific Railway Company has specifically offered, and such as you hope to obtain, must have a disastrous effect upon a Company like the Canadian Northern.

I have pointed out to you that this is by far the most important transaction the Province has ever considered; a transaction in which a mistake may not only be fatal to Manitoba but seriously detrimental to all of Canada, and have most strongly urged, as representing a Company most deeply interested in the future of Western Canada, that your Government should, before finally committing the Province by any contract, make the fullest and most searching enquiries into the subject.

The time, so far at your disposal, cannot possibly have permitted you to make a thorough investigation, and to have resort to the technical information, wide range of facts, and other matters necessary to enable you to arrive at an intelligent conclusion.

Under these circumstances, would it not appear to be imprudent, if not absolutely reckless, to enter into a contract with the Canadian Northern Company, which, in the expressed opinion of your Government, is not in the best interests of the Province, and which was decided upon in contravention of the best judgment of your Government at a meeting of your followers hastily called, and held under such conditions as would make it impossible for these gentlemen to become fully informed, as to the magnitude of the financial responsibility that the Province proposes to assume.

In order to enable you to make the necessary investigation, the Canadian Pacific Railway Company is willing to enter into an agreement with your Government, for, say, one year, to the effect that the Government shall during that period operate the lines proposed to be leased from the Northern Pacific Railway Company, and that the Canadian Pacific Railway Company shall provide rolling stock, and accord most reasonable rates for handling between Winnipeg and Fort William, or Port Arthur, all traffic originating on or destined to the lines operated by the Government. These rates I am now ready to discuss, and in a spirit calculated to enable you to determine, within the year, the earning capacity of the lines proposed to be leased from the Northern Pacific, when operated under most favourable circumstances as portion of a system extending to Lake Superior.

This Company will also agree that, at the end of the term, its proposition of January 22nd, as amended by this letter, will be open for acceptance by your Government.

The Company's justification for making this offer, under all the circumstances outlined above, is that these lines can be operated most economically as a portion of its large railway system, and because the revenue from the traffic, that the lines would contribute to its extensive mileage east of Fort William, would make them more valuable to this Company than they could possibly be to the Northern Pacific Railway Company, the Canadian Northern Railway Company or to the Manitoba Government.

The magnitude of the proposed transaction between the Government, the Northern Pacific Railway Company and the Canadian Northern Railway Company and the crushing financial burden that it would probably impose on the Province, from which there can be no escape, once the contract has received legislative sanction, prompts me to urge upon you that no definite arrangements in connection with it be made between the Government and the other parties until, at least, there has been further opportunity to discuss the whole subject with the Members of the Legislature.

I have the honour to be,

Sir,

Your obedient servant,

(Signed) T. G. SHAUGHNESSY,

President.

